

FISCAL NOTES

JUNE REVENUE (IN MILLIONS): SALES TAX: \$1,614.6 OIL PRODUCTION: \$61.6 NATURAL GAS: \$84.3 MOTOR FUELS: \$269.3 MOTOR VEHICLE SALES: \$244.0 TOBACCO: \$133.1

The New Space Race

*An Interview with
Richard Garriott,
Part I*

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LETTER FROM THE COMPTROLLER

When city folks come out to visit us on the ranch, it often takes them some time to truly unwind and adapt to the rhythms of West Texas and the perspectives that open spaces afford.

On one particular evening some years ago, an urban acquaintance of ours looked up into the night sky and was fascinated by something she'd never seen before. "Susan," she asked, "what is that really weird cloud up there?"

"That's no cloud," I replied. "That's the Milky Way."

She just wasn't able to see it from where she lived, because the bright lights of the city dimmed its far-off brilliance. It's getting harder, I suppose, for many of us to see the forest for the trees — or the sky for the clouds.

But here in the Lone Star State, the stars at night really are big and bright. And many Texans have made it their life's work to reach for them... literally.

This issue of *Fiscal Notes* features the first of a three-part exclusive interview with Richard Garriott, who grew up near Houston in a neighborhood where parents didn't just go into the office, they went into space.

His astronaut father flew on Skylab and the space shuttle. When he wasn't orbiting the planet, he'd bring home early NASA prototypes of cool things such as night-vision goggles for the kids to play with in the backyard.

In 2008, Garriott followed his dad into space. And today, he's a pioneer on an even newer frontier, exploring opportunities for private space companies — some of them Texas-based — in the 21st century. I think you'll enjoy hearing his views on this emerging new era.

We've always been inspired by those who reach for the stars. But sometimes, the only way you can really see what's out there is during the darkest of hours. So this issue also looks at some recent challenges in the Texas housing market as well as those facing our commercial fishing industry.

If there's one thing I know about Texans, it's that whether we're exploring the heavens or casting our nets into the waters, we're going to keep our chins up and our eyes on the prize.

Susan Combs



ACROSS TEXAS

► Austin's **La Corsha Hospitality Group** will renovate and reopen Mineral Wells' famed Baker Hotel. The Baker, opened in 1929 and closed since 1972, was once a getaway for wealthy and famous patrons who came to bathe in the town's waters. The \$52 million renovation will position the Baker as a "destination" spa and resort.

► **Caterpillar Inc.** is building a new hydraulic excavator manufacturing facility in Victoria that is expected to create more than 500 jobs in the area.

► San Antonio's **GFR Development Services** plans to build a major retail and office center on the city's south side, near the former Brooks Air Force Base. Portions of the project could open before the end of 2011.



Visit our online edition at
www.FiscalNotes.com
to read an extended version
of our story on Texas housing.

Cover photograph courtesy
of Richard Garriott.

Click Here for a Career

by Mark Wangrin

"Get A Life" Helps Kids Plan Their Future

In 2009, *Forbes* magazine polled hundreds of New York City kindergarteners on a whole bunch of grownup stuff, like their hopes and dreams and life goals. They found 21 percent had weighed their options and carefully plotted a specific career path.

They wanted to be super heroes. Many of them already knew which one they wanted to be, too — Spider-Man.

Unfortunately, unless they develop wall-crawling abilities and an uncanny intuition for peril, odds are that they'll have to settle for something else.

Maybe an architect? A lawyer? Texas Comptroller of Public Accounts?

Those are real questions, and now Texas middle-schoolers have some high-tech, interactive help in finding real answers.

"Get A Life," a Texas Comptroller website at GetaLife.tx.gov, is designed to get middle-school students thinking about what they want out of life — and what they need to do to get it.

To answer the Texas economy's need for a diverse and well-trained work force, Comptroller Susan Combs greenlit the

site to spur middle-school students into thinking about fast-growing and well-paying careers.

"Get a Life encourages kids to dream big, explore the endless possibilities the future holds and map out a plan to get where they want to go in life," Combs says.

Katherine Deming, a teacher at Bedichek Middle School in Austin for the last six years, says middle-school students are "hyperfocused" on their future.

"They want so badly to be treated like adults," Deming says. Middle-school kids "are literally in the middle — and the decisions that they make in seventh and eighth grade will affect the rest of their lives," she says.

Research showed that the best way to reach "tweens" is through technology. A 2008 survey by Internet tracking service DoubleClick Performics indicated that 83 percent of U.S. kids aged ages 10 to 14 spend at least an hour online daily.

One of the most popular tools available on Get a Life is called Reality Check, a game from Texas Workforce Solutions. Kids answer questions about what type of lifestyle they want (from Spartan to opulent) and the program tells them how much money it will take to sustain their choices and in what careers they could earn it.

"It takes a holistic point of view," says Beth Hallmark, editorial creative director for the Comptroller's Public Outreach and Strategies Division. "It's

"Hyperfocused": the kids of Austin's Bedichek Middle School.

not just what kind of job do you want, but what quality of life do you want. What are your talents? What types of careers interest you? How do you get there?"

In spring 2009, Comptroller staffers visited Bedichek Middle School to tout the site and obtain feedback on the type of website elements that can woo middle-schoolers. Interactive features and games topped the list, along with peer experiences.

"They wanted someone who spoke their language," Hallmark says.

Deming thinks the site is helpful.

"Many of my students will be required to earn an income to help support their families, and this website was a great resource for them," she says. "Not to mention that it was well-designed and written in teen-friendly language."

Get A Life debuted in June 2009 but is receiving a promotional boost as children return to school this fall.

"There are many paths to success," Hallmark says. "There's college, vocational school, training programs and so forth. The single truth is that some type of education beyond high school is necessary."

True enough. Even Spider-Man has a degree from Empire State University. **FN**



Do you know a middle-school student who's grappling with plans for the future? Tell him or her about Get a Life at www.getalife.tx.gov.

Wells They Left Behind

by Clint Shields

State Cleans Up When Production Stops

For more than a century, Texas has been the nation's energy king. And the state's oil patch, pin-cushioned with hundreds of thousands of wells, shows it.

But oil and gas wells don't produce forever. Some never produce at all.

When a well reaches the end of its production life — or is abandoned as

a dry hole — the Railroad Commission of Texas (RRC) can step in to prevent problems. Wells that have been inactive for a year or more can be classified as "orphaned" and slated for permanent capping.

And in the last six years, RRC's aggressive well-capping program has cut the state's number of orphan wells by more than half.

SAFE IN THE GROUND

While the oil and gas industry's goal is to remove resources from the ground, keeping oil and other contaminants in the ground when wells stop producing is just as important.

"Pollution of groundwater is the biggest threat posed by orphan wells," says Ramona Nye, a spokesperson for the RRC. "Wells may

act as conduits, bringing oil and gas hydrocarbons from below ground and into aquifers, so the proper plugging of these wells is essential to prevent this potential pollution threat."

More than 90,000 Texans work in oil and gas support activities, which includes well capping.

In fiscal 2009, RRC spent more than \$16 million on well capping, the second-highest total in its history.

There are plenty of potential hot spots to go around. In August 2009, RRC was tracking more than 389,000 wells in Texas, 11,000 more than in August 2008. Of those, about 7,900 were classified as orphan wells. But more than 110,000 of those wells were classified as inactive. To avoid having inactive wells classified as orphaned,

AN ABANDONED WELL CAN SERVE AS A VERTICAL PIPELINE, TRANSPORTING TOXIC BRINE WATER FROM DEEPER GEOLOGICAL FORMATIONS DIRECTLY INTO SHALLOW FRESHWATER AQUIFERS.

CEMENT PLUGS

MUD

FRESHWATER AQUIFER

USEABLE WATER QUALITY FORMATION

BRINE WATER

TOXIC WATER

OIL & GAS FORMATION

owners must keep their paperwork with the state current, usually through a form called a P-5 Organization Report.

Tracking wells can be tricky, Nye says, as they can move in and out of orphan status due to paperwork lapses, changes in ownership and other factors.

FILLING IN

RRC received more authority for its well cleanup and capping efforts when the 1991 Texas Legislature created the Oil Field Cleanup Fund (OFCF), which replaced a prior Well Plugging Fund, and again in 2005, with the creation of the Orphan Well Reduction Program.

The OFCF supports RRC's well capping efforts. Funded primarily through fees paid by oil and gas companies as well as enforcement penalties and reimbursements, about \$156 million in OFCF money has been used to plug more than 26,000 Texas wells since 1992. That's an average of more than 1,500 capped wells per year, and more

than triple the average capping rate before the fund's creation.

In all, RRC's well-capping program has slashed the state's total of orphan wells from nearly 17,000 in 2003 to less than 8,000 in 2009.

And the effort isn't slowing down. In fiscal 2009, RRC spent more than \$16 million on well capping, the second-highest total in its history.

"Proper plugging eliminates the pollution threat posed by an unplugged well,"

Nye says.

The Orphan Well Reduction Program, on the other hand, allowed RRC to reimburse landowners or well operators for capping abandoned wells, paying up to half of either the actual cost or RRC's

average cost for plugging similar wells in the same area within the preceding two years, whichever is less.

During the program's two-year run, it paid more than \$107,000 in reimbursements to owners and operators who capped 13 wells and returned 41 to production. Active operators took over an additional 133 orphan wells, but did not file for reimbursement. Those wells are either producing, temporarily shut down or plugged.

The program ended in 2007, but reimbursements can still be paid through December 2010.

For more information on the Railroad Commission of Texas' well-capping and cleanup efforts, visit its website at www.rrc.state.tx.us/environmental/plugging/index.php.

ABANDONED WELLS ARE PLUGGED OR "CAPPED" BY FILLING SECTIONS OF THE WELL WITH CEMENT TO ENSURE THAT OIL AND BRINE CANNOT TRAVEL INTO FRESHWATER FORMATIONS. AFTER THE CEMENT PLUGS ARE IN PLACE, THE WELLHEAD EQUIPMENT IS REMOVED AND REPLACED WITH A CAP THAT IS SUBSEQUENTLY BURIED.

COMMUNITY WATER STORAGE TANK

WATER WELL

DOING WELL BY ORPHAN WELLS

Increased funding and aggressive capping efforts have helped the Railroad Commission of Texas steadily reduce the state's orphan well count.

DATE	ORPHAN WELL COUNT
Aug. 2003	16,770
Aug. 2004	15,305
Aug. 2005	14,208
Aug. 2006	11,287
Aug. 2007	9,579
Aug. 2008	9,323
Aug. 2009	7,900

YEAR	WELLS CAPPED
2003	1,635
2004	1,525
2005	1,710
2006	1,824
2007	1,536
2008	1,261
2009	1,460

Source: Texas Railroad Commission

Homebuyers Hold the Cards



by Gerard MacCrossan

Recession and Recovery in Texas Housing

Texas has fared better in the housing slump than many other states.

Strong employment and a fairly stable real estate market helped, as did the greater caution of Texas lenders, who remembered all too well the collapse in housing prices that followed the state's energy boom and bust in the 1980s.

But full recovery isn't in sight just yet.

Housing sales are still slow, in Texas as well as the nation as a whole. Texas home sales were 13.5 percent higher in May 2010 than in May 2009, but

year-over-year sales dipped slightly in June and plunged 25 percent in July. In all, home sales for the year ending in July 2010 were just 4 percent higher than in the previous year.

Still, even sluggish growth puts Texas ahead of many states.

"Nationally, things aren't better," says Dr. James Gaines, an economist with Texas A&M University's Real Estate Center.

"Right now, most of the real estate data points aren't pointing in the right direction. U.S. building permits are down and so are home sales."

BACK TO EARTH

Over the past two decades, Texas sales of existing single-family homes enjoyed a long upward growth trend that began after the 1980s bust and peaked in the first half of 2007. The two-year slump that followed pulled Texas sales back down to 2003 levels, about 30 percent lower than the peak.

This rapid decline, moreover, accompanied an even steeper drop in new home building. In two years, the number of single-family home building permits fell by almost two-thirds, to an annual average not seen since the mid-1990s. Growth in building permits didn't return until the second half of 2009.

A variety of factors have made economists reluctant to project the return of sustained sales growth with any certainty. Gaines says increased sales during late 2009 and the first half of 2010 coincided with federal intervention, including a moratorium on foreclosures and a first-time homebuyer tax credit against personal income taxes.

But now, "all the government intervention into the market has gone away and we don't know how the market

is going to react," Gaines says. "The housing market is a function of available credit and the job market. It appears to be trying to recover, particularly in Texas, but perhaps not enough to stimulate demand."

BANKING ON BUYERS

"If you look at the housing market in San Antonio, you'll see that it peaked in 2006. It was a pretty darn strong market in 2007 and then it fell off dramatically in 2008," says Bob Gardner, CEO of Gardner Financial Services Ltd., which operates San Antonio's Legacy Mutual Mortgage. "It got a little bit better in 2009. But my projection is at the end of this year, the number of sales is going to be a little less than it was in 2009."

One factor is stricter standards for borrowers. The bust put an end to low- and no-money-down arrangements and may have dampened the full potential of the homebuyer tax credit. "Qualifying for loans today is much tougher than it was in 2006, 2005 and 2004," Gardner says. "Fewer people qualify to buy a house, and that hurts homebuilders worse than anybody."

Continuing low interest rates, however, may stimulate future sales.

"If you can qualify and have a down payment, it's a great time to be a buyer and to get into the market," Gaines says. "It remains to be seen if there is going to be enough of that activity. We probably won't see substantial and sustainable improvement until next spring."



Bob Gardner
CEO, Gardner Financial Services, Ltd.

BUILDING SLUMP

One factor preventing the formation of a housing bubble in Texas was the

"Most builders aren't building anything they can't sell."

— Dr. James Gaines,
Texas A&M University
Real Estate Center



ability of the state's builders to ramp up construction when demand was high. And one area of Texas that saw a long building streak was the Rio Grande Valley.

Adrian Arriaga Jr. of McAllen-based AAA Real Estate and Investment says that a lack of housing in the Valley area prompted a construction boom that started early in 2000 and continued through 2007.

"Like everything, real estate goes in cycles," says Arriaga, president of the Greater McAllen Association of Realtors. "We were riding so high for so long, but we're probably where we need to be. Everything averaged out."

Although 2009 sales were lower than the previous few years, there could be some cause for optimism among McAllen sellers, he says. Existing home sales of about 250 in March and again in April were the highest the area had seen since summer 2006, when residential sales were peaking statewide.

"Some of that has to do with the tax credit that was available to first-time homebuyers," Arriaga says, adding that the real impact of the program can't really be judged until after

the August deadline for closing. (To receive the federal tax credit, homebuyers had to have a contract in place by April 30, but closing could continue until Aug. 31.)

"Right now it is a buyer's market," Arriaga says. "Buyers hold all the cards when making offers on existing houses and get better incentives from builders on new homes."

JOBS FIRST, THEN SALES

Like buyers, homebuilders are being pinched by tight credit. Regulatory changes have reduced the share of total assets that banks can have in the form of residential real estate loans, restricting the capital available to builders.

"Most builders aren't building anything they can't sell," Gaines says. "Most of all, they can't get financing. Even when they have the home under contract, builders are required to put more of their own money into the deal. They are getting 70 to 80 percent construction loans, not the 90 to 100 percent loans of before."

Gardner says the recovering housing industry simply needs an economy that is adding jobs.

"Looking at Texas as a whole, we have the best job growth," he says. "Is it great? Well, it's better than anyone else's. As long as you have some steadiness [it helps]; it's peaks and valleys that kill you when trying to organize a business market."

Gaines is mildly optimistic. "For next year, expect the market to look like before we went into the boom — look at 2000-2003," he says. "In some areas, there may be some housing shortages, and prices [in those places] will start going up fairly well."

"Texas lagged almost a year behind the nation in going into the recession," Gaines says. "It would appear — and I want to emphasize 'appear' — that we might be last in, first out." **FN**

The Texas A&M University Real Estate Center collects data on Texas residential home sales and prices. You can read the latest reports from their economists at www.recenter.tamu.edu.



In an extended version of this story at FiscalNotes.com, learn how Texas compares with other states on foreclosures.

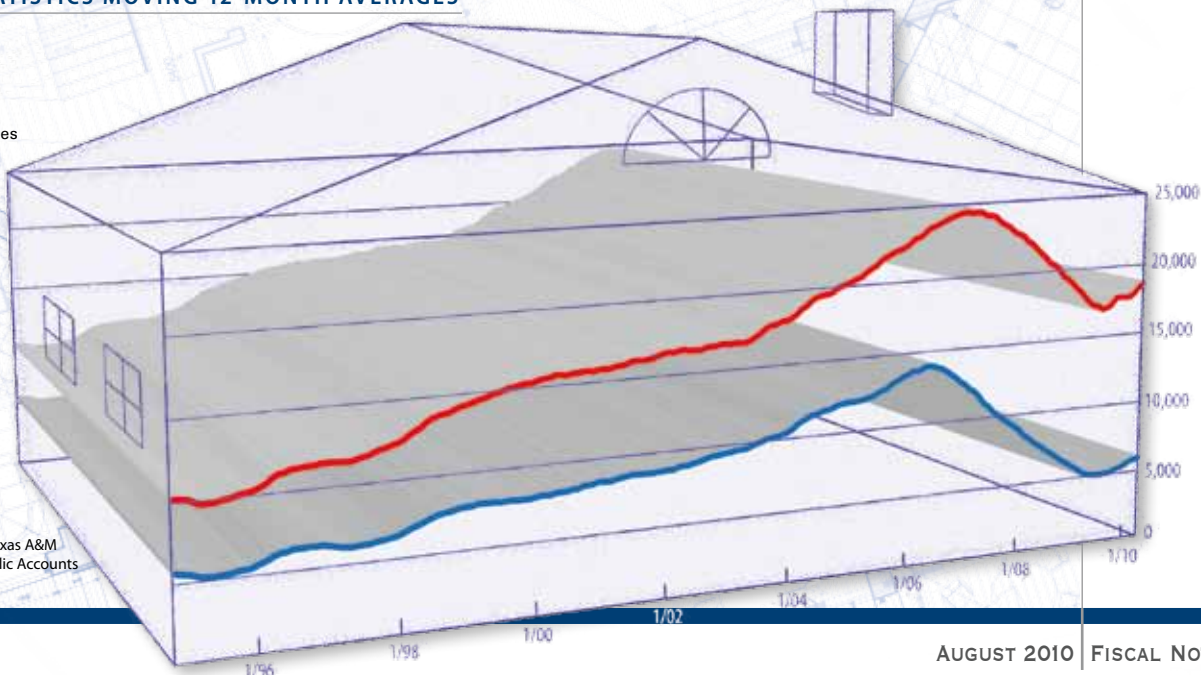
THE FALL AND RISE OF TEXAS HOUSING MARKETS

In Texas, both sales of existing homes and new home construction enjoyed a long period of growth that peaked in 2007. During the next two years, home sales declined almost a third, while building permits dropped by almost two-thirds. Both sectors began to rebound in 2009.

TEXAS HOUSING STATISTICS MOVING 12-MONTH AVERAGES

- Existing home sales
- Permits issued

Note: Moving 12-month averages "smooth out" seasonal and monthly variations typical of the volatile residential real estate sector to present a clear picture of housing trends.



Sources: The Real Estate Center at Texas A&M University/Texas Comptroller of Public Accounts

The New Space Race

by Bruce Wright

An Interview with Richard Garriott, Part I

DOERS AND



DREAMERS

In early 2008, *Fiscal Notes* examined Constellation, NASA's ambitious program to return man to the moon and ultimately take us to Mars. By 2010, however, the program was in serious jeopardy, due largely to rising costs and technical problems associated with the development of Ares I, a NASA-designed rocket intended to carry crew members to orbit.

In June of this year, the White House announced a new roadmap for manned space exploration, one that would use private companies to provide routine access to earth orbit, freeing NASA to concentrate on more difficult and distant missions. The proposal has proven highly controversial, pitting the enthusiastic support of "new space" companies and entrepreneurs against defenders of NASA's traditional approach — and the thousands of jobs it provides.

Few are better equipped to discuss this transition period than Texan Richard Garriott, a key figure in the development of computer gaming who has devoted much of his life and fortune to expanding man's reach into space. An astronaut's son, Garriott is an investor in private space ventures, a board member of Space Adventures Ltd. and a member of the NASA Advisory Council. In October 2008, Garriott fulfilled a life-long ambition by self-funding a 12-day trip to the International Space Station.

In this issue of *Fiscal Notes*, we begin an exclusive three-part discussion with Garriott on the outlook for privatized space travel — and Texas' role in this new space race.

FN: You grew up as the son of an astronaut — astronauts were families, friends and neighbors. Could you tell us how that influenced the course of your life and interests?

Garriott: I think every kid grows up believing that their family situation is relatively normal, especially if your situation is the same as your neighbor's.

My father was a NASA astronaut, my right-hand neighbor was Joe Engle, a shuttle astronaut, left-hand neighbor Hoot Gibson, another shuttle astronaut — and all the other astronauts, including Neil Armstrong, Buzz Aldrin, the well-known folks, all lived relatively nearby.

And my neighbors who weren't astronauts were NASA scientists and engineers. I mean, it just seemed to me like everybody goes to space because everybody I know did go to space. It wasn't till I went to college that I realized that my life wasn't normal.

FN: Did you want to join the astronaut corps when you were a teenager, say?

Garriott: When I was a kid, I never said, "When I grow up I want to be an astronaut" — until one day I was getting my regular checkup at NASA and one of the doctors saw that my eyesight was going bad. He said, "Hey, Richard, I hate to be the one to break it to you, but you're no longer eligible to become a NASA astronaut."

It was like being told you're no longer eligible to be a member of the club that your father, your neighbors and all of your friends' parents are members of. I was shocked.

And then, you know, after a brief period of anger and

"At the age of about 13, I devoted myself to the privatization of space."

depression, I said, look, who is NASA to be the keeper of the keys to space? And so really, at the age of about 13, I devoted myself to the privatization of space — frankly, so I could go. And, you know, at the age of 13 you don't really realize how phenomenally difficult that problem's going to be.

But 30 years of perseverance, and having the good fortune to have made some money in the games industry, allowed me to press on. Eventually, it worked.

FN: Was gaming your avenue to get yourself in that position?

Richard Garriott's father, NASA astronaut Owen Garriott, on Earth and at the office.



Garriott: Absolutely, yeah. Since 13, space always beckoned as the big prize, and the thing I continued to work towards.

FN: Your father first flew into space in 1973, toward the end of what you could call the “heroic” era of NASA. When you were young, where did you expect we would be in space by now?

Garriott: Well, I think that most everyone in the world probably believed in the 2001 vision of the future — wagon-wheel space stations generating artificial gravity and bases on the moon. We thought we’d be much further along.

But look at the community of people who were inspired by that heroic era. Apollo did a great job of getting lots of people, especially in this nation, involved in science, technology, engineering and math.

And right on the heels of Apollo we saw the big tech boom, where America became a leader in the high-tech industry. And that, I believe, was not an accident.

A lot of those people who were inspired by Apollo went into tech businesses and helped create this renaissance of high tech we’ve been through. We now have wealth, and we’re turning to space.

I’m not the only example of that. Jeff Bezos, founder of Amazon.com, now has a company called Blue Origin making rockets. Elon Musk, the founder of Paypal, is doing SpaceX, which just launched its Falcon 9 rocket, reaching orbit with a vehicle that will ultimately take cargo and potentially crew to the space station.

John Carmack, who did the Doom and Quake series of games, makes rockets now, too, at his Dallas company Armadillo Aerospace. In fact, my company, Space Adventures, just announced a partnership with him. He’s going to build a rocket that we’re going to fly to suborbital space.

And there’s more. I mean, I could list many more teams of commercial groups that are now pursuing space.

In addition, look at the traditional rocket builders — Boeing, the United Launch Alliance, Sierra Nevada Corporation — all these guys that have what I’ll call “tenure” in building for space. The people who lead those companies are in the same generation I am. They’re orphans of Apollo, too.

And they too feel generally like I do, which is that now is the time for us to take over the space race. Our generation is now in charge, really, in the prime contractors and all these entrepreneurial startups.

And across the board, that group of people is saying that the way for us to really push beyond earth orbit is to take the stuff we already know how to do reasonably well, like low earth orbit, and push that into commercial hands, and then let NASA focus on things that private industry truly can’t do yet, the really hard stuff, like visiting asteroids, the moon and Mars.

This has been repeated in history over and over — governments go first into the places that are too expensive, too



“There’s no need for NASA to build rockets for low earth orbit. The right thing to do is to turn it over to private industry.”

— Richard Garriott
entrepreneur

risky for private industry. But once you’ve proven it can be done, if there’s value there, it turns over to them. And now is the time for space.

FN: Would you agree with people who feel that NASA shouldn’t be building its own launchers, as they were attempting to do with Ares?

Garriott: Well, I think that there’s no question that NASA can build rockets. They clearly have the skill. I just think there’s no need for NASA to build rockets for low earth orbit. And because there’s no need, the right thing to do is to turn it over to private industry.

I mean, NASA could go to Boeing and say, “You go buy the solid rocket boosters, you take care of the launch — I just want a launch service.” And even if the tab is a billion dollars, things will happen. If anybody can do it for half a billion, NASA’s going to buy from them.

And Space Adventures, or any other company — I can buy it too, whereas right now even if I had a billion dollars

“A lot of those people who were inspired by Apollo went into tech businesses.”

for a launch, NASA wouldn’t sell it to me. They’re not in the business of selling services.

And so you need to privatize these things. You know, fundamentally, there either is or isn’t value in going back to space. If there’s no value, none of us should be going. If there is value to be had in space, private industry should be there.

And only by getting the cost down and democratizing access to space do we have any prayer of making it anything other than the rarest of all human journeys. **FN**

Our conversation with Richard Garriott continues in our next issue. To learn more about Richard Garriott’s trip to the International Space Station, visit www.richardinspace.com.

Net Effects

by Michael Castellon

Texas Fishermen on the Oil Spill



It's early on Saturday morning, and the July sun is arcing off glass condominiums in downtown Austin.

Below them, Roberto San Miguel is helping the usual crowd of customers who surround his booth at Austin's downtown farmers' market.

They're buying bags of fresh red snapper, Gulf shrimp and grouper that San Miguel drove up from Freeport the night before. He makes the 200-mile run twice each week to accommodate nearly 40 Austin restaurants that rely on him for fresh seafood, as well as his

farmer's market customers. Each run nets him about 1,400 pounds of fish.

"This product sells itself," San Miguel says. "It's about as fresh as anyone can get it, and far fresher than even high-end grocery stores who have to freeze their product. Mine is never frozen; it's always fresh. People can tell the difference."

But San Miguel's operation requires far more than a dedication to freshness. It calls for a complicated orchestration of monitoring prices, volume, fuel costs, customer needs and industry trends. If he overbuys product at the pier, he's stuck with seafood he can't sell. Too little, and he disrupts the menus of the hotels and restaurants that depend on him.

Roberto San Miguel and one fine-looking fish.

"The Texas Gulf Coast is not affected. This perception is killing us."

— Roberto San Miguel

A week later, San Miguel is standing on a pier in Freeport. The Delfin II, a vessel whose belly holds more than 5,000 pounds of red snapper, has just docked, and its crew is busily moving fish from the boat to nearby bins that each hold about 700 pounds of product.

San Miguel is here to collect fish for his latest run. His cell phone is ringing almost constantly from Austin chefs who want to place orders.

Roberto reaches into an ice bin and holds up a snapper, bright red and glimmering. It's as long as his forearm.

"They really are so beautiful. They're the emeralds of the sea."

But since April, the Deepwater Horizon oil spill off the Louisiana coast has dominated the headlines — and cast a shadow over Texas seafood operations.

THE OIL SPILL AND TEXAS SEAFOOD

This time last year, San Miguel had a course plotted for the future. He sees a huge opportunity for a fish market in Central Texas, essentially allowing

him to do what he does now, but on a larger scale.

He had every reason to believe that it could happen, too. Business was better than ever.

"I was taking more and more orders. Everything was going fantastically. I just ordered a refrigerated truck. I was about to move into a wholesale place, and then this happened," he says, referring to the Gulf oil spill. "I'm burning through my cash reserves, and things are getting tighter."

San Miguel is working feverishly to set the record straight about Texas seafood.

"I was selling 1,200 pounds of shrimp wholesale a month. Now, it's down to a third of that," he says.

"People took shrimp off the menu. We just have this negative perception. It's a drumbeat of negativity from CNN and Fox. They should be saying 'the Mississippi Gulf Coast,' or 'the Alabama Gulf Coast.' The Texas Gulf Coast is not affected. This perception is killing us."

And the blow to the seafood industry isn't limited to public fears about contaminated products. Following the spill, fish wholesalers and distributors overreacted, based on the false premise that all Gulf seafood was contaminated. Their panic buying and stockpiling further disrupted the market.

"Many northern states went into a panic and bought all the inventory they could," says San Miguel. "Then greed set in with the wholesalers, and they bumped up the prices despite the fact there was less demand. I was paying \$5.75 per pound, and then it went up to \$9. No one was going to pay that much."

In early August, a federal task force concluded that the oil spill leaked 4.9 million barrels of oil into the Gulf. An Oxford economic study found that the economic impact of the spill could reach as much as \$22.7 billion over three years.

Since the spill, however, both the Food and Drug Administration and the National Oceanic and Atmospheric Administration have maintained that fish and shellfish harvested from areas unaffected by the fishing ground closures are safe to eat. Both agencies are monitoring fishing grounds for signs of contamination.

TOURISM UP, SEAFOOD SALES DOWN

More than 60 communities along the Texas coast have ties to the fishing industry, and all of them are closely watching economic and environmental trends resulting from the oil spill.

Mark Friudenberg was raised in the Texas Gulf seafood industry. He started working on fishing boats at a young age. When he was 18, he began selling fresh fish from the back of a truck, proving to area restaurants that freshness and cleanliness result in a superior product.

For seven years he's operated Captain Mark's Seafood in Freeport, an immaculate shop that is well-stocked with fresh snapper and shrimp.

He also operates the Delfin II and serves as president of the Freeport Longshoremen's Association.

"We've seen a big increase in the amount of tourism traffic through Freeport and Surfside Beach," Friudenberg says. The boost in tourism is the result of "offset" tourists now unwilling to travel to the beaches of Louisiana and Mississippi, who turn to the clean Texas shore for their summer vacations.

"The downside is, we're seeing about a 30 percent drop in sales at the shop," he says. "Right now, Texas is offering clean, pristine seafood, but we're waging a war of perception with people who constantly see images of the Gulf oil spill on TV."

"Texas is offering clean, pristine seafood, but we're waging a war of perception with people who see the Gulf oil spill on TV." —

Mark Friudenberg

INFORMING THE CONSUMER

Friudenberg relies on a trusted method for informing consumers about Texas' situation. When he began selling seafood as a teenager, it was hard to convince chefs to buy his product. But he quickly learned that if he could convince them to come out to his truck to actually see the catch, nine times out of 10 he'd make a sale.

"These fish are so beautiful and so fresh that once people see them, they understand what a quality product it is," he says. "It works that way for highly trained chefs, and it works that way for tourists who come into the shop. When they see the product, and I tell them that I feed this to my family, they understand the situation better."

"You can't just lump the Gulf all together," he says. "Texas just doesn't have a problem. These folks are suffering from a negative perception about Gulf seafood, especially where Texas is concerned."

MOVING FORWARD

Friudenberg and San Miguel sympathize with the fishermen of Louisiana and Alabama. They're also disappointed that the grounds they've fished for so long have been threatened by an industrial accident. But for now, they seem to have accepted the tragedy, and are coping.

"I don't begrudge [BP] at all," San Miguel says. "They screwed up, but they're going to fix it. I like to remind people that the petrochemical industry, when it came in 1941, provided the habitat that was needed for snapper. Snapper like [underwater] structure" — the rigs act as artificial reefs.

"We need the petrochemical industry," San Miguel says. "When we're out there, when we go fishing, the oil rigs let us hook up to their rig and fish. It's a symbiotic relationship. My problems pale in comparison to what's happening up in Louisiana and Alabama. We need BP to be healthy and pay for the mess up there."

In the meantime, "I'm going to hang in there," he says. **FN**



Photo courtesy of Texas Parks and Wildlife Department

See an online gallery of red snapper being unloaded from the Delfin II by visiting this story online at www.FiscalNotes.com.

SAN MIGUEL'S TIPS FOR QUALITY SEAFOOD

Roberto San Miguel has been involved in the fishing industry for 25 years, from working on fishing boats to distributing some of the freshest seafood money can buy to Austin's top restaurants and foodies. Here are his tips for finding the best seafood in Texas.

- **Know your provider.**
- **Don't base your purchase solely on labels.** Even fish labeled as "local" can travel to a packing facility across the nation before coming back to you.
- **Ask questions.** Don't be afraid to ask when and where your provider got his or her product.
- **Buy local.** Many smaller grocers buy products from distributors who deliver straight from the Gulf. That reduces time spent traveling and the need to freeze.

Brief Bytes

by Editorial Staff

ARTS BRING BILLIONS TO NORTH TEXAS

Nonprofit arts and cultural organizations in North Texas contributed more than \$3.05 billion to the region's economy over three years — \$1.06 billion in 2009, \$995.3 million in 2008 and \$998.2 million in 2007, according to a study by the Dallas-based Business Council for the Arts and Deloitte.

After adjusting for inflation, the study pegs the impact of the arts on the region at more than \$15 billion over the last 20 years.

"The economic impact study clearly shows that arts and culture are a vital component to our economy," says Katherine Wagner, CEO of Business Council for the Arts. "We hope the results will focus national attention on the scope of cultural activities in North Texas and encourage enhanced corporate financial support for arts and culture in our region."

The economic impact comprises direct and indirect spending by arts and cultural organizations, indirect audience spending and construction expenses related to new and existing facilities, including one-time capital improvements and expansions.

For more information about the events and programs of the Dallas-based Business Council for the Arts, visit www.dbca.com.

(Tracey Lamphere)



A BIGGER, GREENER KIMBELL

Fort Worth's world-famous Kimbell Art Museum is getting a \$125 million expansion, due for completion in 2013.

An 85,000-square-foot building to be located to the west of the Kimbell's original, Louis Kahn-designed facility will provide much-needed additional space for the museum. The Kimbell's leaders say the museum's exhibitions and educational programs have grown tremendously since it opened in 1972.

Italian architect Renzo Piano is designing the new building, which will provide extra galleries for travelling

exhibitions and allow the Kahn building to house permanent collections. The new building also will provide classrooms, studios, an auditorium, an expanded library and underground parking.

Piano's structure will require about one-fourth of the energy consumed by the Kahn building. His energy-saving design calls for 140 geothermal wells, dug 300 feet into the earth; rainwater collection to supplement city water; photovoltaic cells; LED lighting; and light-filtering window-shade systems.

"Sustainability is a high priority of the building program, and we are exceptionally happy with what Mr. Piano has envisioned," says Kimbell Director Eric Lee. "Museums conserve art. They should also make every effort to conserve other precious things like energy and water."

For information on the museum's expansion and its current exhibitions and collections, visit www.kimbellart.org.

(Karen Hudgins)





WILLIAMSON, COLLIN COUNTIES HEALTHIEST

Williamson County tops a list of Texas counties with the best “health outcomes,” while Collin County offers the best “health factors.”

That’s the conclusion of a 2010 report from Mobilizing Action Toward Community Health (MATCH), a project of the University of Wisconsin Population Health Institute and the Robert Wood Johnson Foundation. The report ranks the health of Texas counties by health outcomes and health factors.

Health outcomes are measures describing the county’s current health status, including length and quality of life, while *health factors* include such things as lifestyle choices and access to and quality of health care.

The top 10 Texas counties by each measure are:

BEST HEALTH OUTCOMES		BEST HEALTH FACTORS	
RANK	COUNTY	RANK	COUNTY
1	Williamson	1	Collin
2	Collin	2	Kendall
3	Denton	3	Gillespie
4	Gillespie	4	Rockwall
5	Kendall	5	Williamson
6	Rockwall	6	Comal
7	Travis	7	Fort Bend
8	Comal	8	Randall
9	Hays	9	Travis
10	Fort Bend	10	Hays

Source: “County Health Rankings 2010,” University of Wisconsin Population Health Institute

For a complete ranking of all Texas counties, visit www.countyhealthrankings.org/texas.

(Karen Hudgins)



SMALL BUSINESSES, YOUNG WORKERS LOVE AUSTIN

In July, *Kiplinger’s Personal Finance* magazine named Austin as the Best City for the Next Decade, describing it as “arguably the country’s best crucible for small business.” In addition to attracting thinkers and doers, the city also was lauded for its extensive angel investor network. The magazine also noted the city’s “fun factor,” with its music scene and wealth of outdoor activities.

In addition, a new Portfolio.com study tapped Austin as first among the nation’s 10 best places for adults in their 20s and 30s. While two-thirds of the nation’s major markets lost jobs in the past five years, Austin added 99,200 jobs. According to the study, 28 percent of Austin residents are between the ages of 18 and 34. Portfolio.com analyzed the 67 U.S. metropolitan areas with populations above 750,000.

To see the other “best cities,” visit www.kiplinger.com and www.portfolio.com.

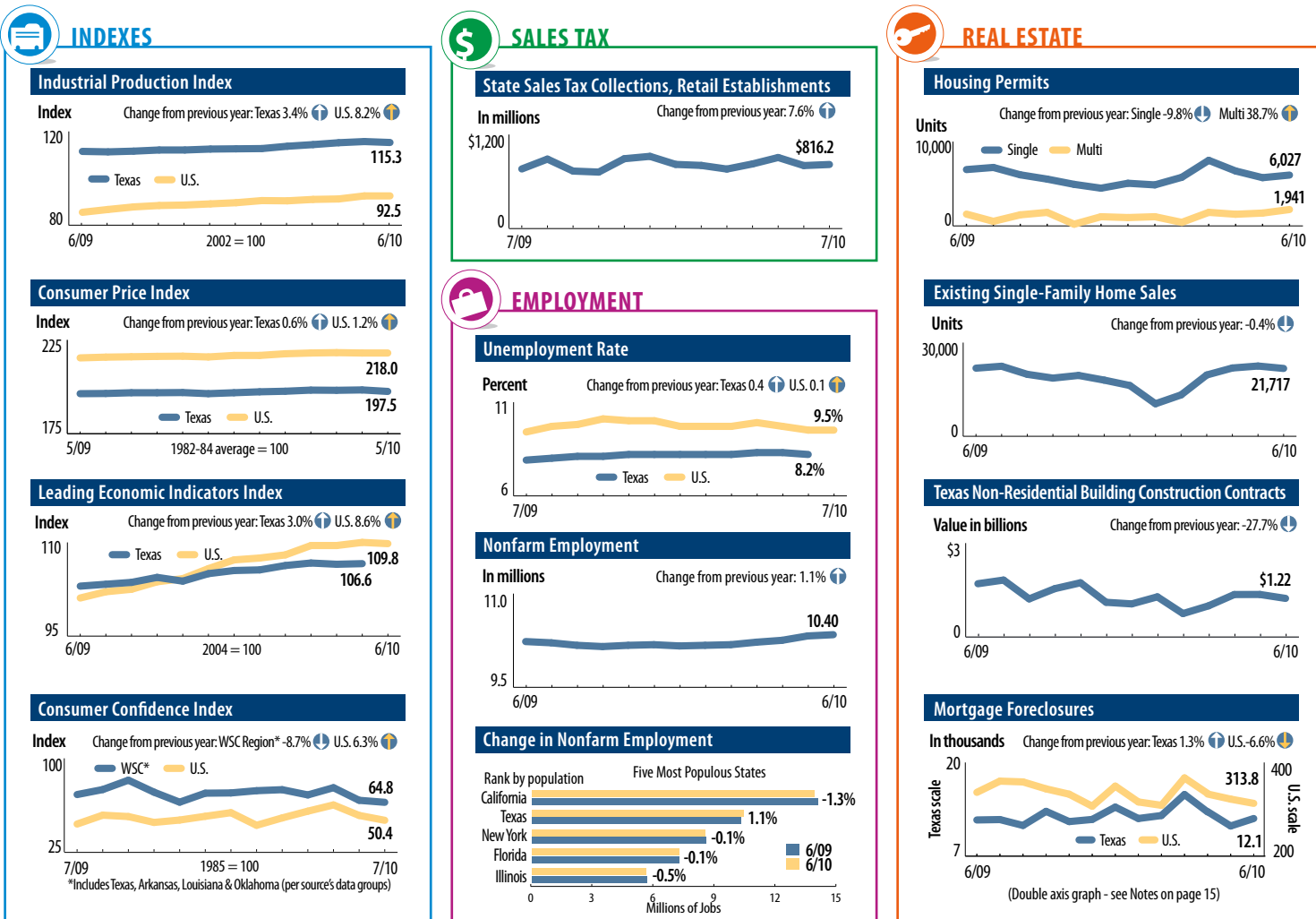
(Tracey Lamphere)



Texas by the Numbers

For detailed statistics on the Texas economy, check the Comptroller's website at www.TexasAhead.org

Key Texas Economic Indicators - Texas gained 110,200 jobs between June 2009 and June 2010, a 1.1 percent increase in nonfarm employment. In June 2010, 10.4 million Texans were employed, 14,000 more than in May 2010. Over the last year, Texas added jobs in mining and logging, manufacturing, professional and business services, leisure and hospitality, educational and health service and government industries.



Texas Production and Consumption Indicators

DATE	Crude Oil Production	Natural Gas Production	Active Oil & Gas Drilling Rigs	Motor Fuels Taxed		Median Sale Price, Existing Single-family Home	Auto Sales	Cigarettes Taxed
	Value (MILLIONS)	Value (MILLIONS)	Units	Gasoline (MILLIONS OF GALLONS)	Diesel (MILLIONS OF GALLONS)	Dollars	Net Value (MILLIONS)	Packages of 20 (MILLIONS)
2008	\$30,409.17	\$34,415.89	892	11,709.7	3,854.0	\$145,800	\$44,442.4	1,077.0
2009	18,455.53	12,167.80	431	11,916.3	3,475.8	143,600	34,792.6	961.6
JUL-09	1,633.5	933.3	342	1,013.6	293.2	153,300	3,071.0	80.5
AUG-09	1,805.8	916.7	366	1,025.9	297.6	150,000	3,111.0	81.0
SEPT-09	1,718.0	786.1	380	1,021.0	292.0	147,400	3,357.9	83.0
OCT-09	1,954.1	1,044.9	398	961.1	281.8	142,700	2,859.6	80.7
NOV-09	1,979.5	1,163.8	433	991.0	288.4	142,500	2,536.5	78.5
DEC-09	1,912.3	1,356.0	470	963.3	267.4	144,500	2,813.6	76.6
JAN-10	2,029.5	1,650.4	519	992.8	287.6	136,900	2,815.3	69.5
FEB-10	1,816.2	1,427.1	549	945.5	289.6	141,100	2,969.2	72.3
MAR-10	2,122.6	1,448.7	593	913.6	273.8	144,000	3,356.2	87.2
APR-10	2,218.2	1,244.3	633	1,032.9	327.8	146,700	3,011.3	81.8
MAY-10	1,997.5	1,234.5	647	1,002.8	315.8	148,100	2,852.6	75.9
JUN-10	1,901.0		663	1,060.4	313.5	153,300	3,490.5	81.0
JUL-10			676	1,028.3	319.0			

June Cash Condition ¹			
(Amounts in millions)	General Revenue	Other Funds	Total Cash
BEGINNING BALANCE JUNE 1, 2010	\$7,160.2	\$20,745.5	\$27,905.7
Revenue/Expenditures			
Revenue	4,885.0	3,750.1	8,635.1
Expenditures	6,719.2	2,832.6	9,551.8
Net Income (outgo)	\$-1,834.2	\$917.5	\$-916.7
Net Interfund Transfers and Investment Transactions	\$-555.7	\$575.0	\$19.3
Total Transactions	-2,389.9	1,492.5	-897.4
END CASH BALANCE JUNE 30, 2010²	\$4,770.3	\$22,238.0	\$27,008.3

¹ Cash stated is from the Comptroller's Uniform Statewide Accounting System (USAS) and will vary from the amounts reflected in the cash accounts of the Treasury Operations Division of the Comptroller's office due to timing differences. Net amounts shown (less refunds) exclude funds that are authorized to be held outside the State Treasury and are not processed through USAS. Suspense and Trust Funds are included, as are unemployment compensation trust funds collected by the state but held in the Federal Treasury. Totals may not add due to rounding.

² The ending General Revenue Fund balance includes \$2.9 billion derived from the sale of cash management notes.

State Revenue/All Funds ¹			
(Amounts in millions)	Monthly Revenue	Fiscal Year-to-Date June 2010	
	June 2010	Revenue	% Change YTD/YTD
TAX COLLECTIONS BY MAJOR TAX			
Sales Tax	\$1,614.6	\$16,166.3	-8.1%
Oil Production Tax	61.6	732.2	6.7
Natural Gas Production Tax	84.3	615.9	-52.6
Motor Fuel Taxes	269.3	2,514.0	-0.1
Motor Vehicle Sales Tax	244.0	2,126.6	-1.1
Franchise Tax	50.5	3,696.2	-10.0
Cigarette & Tobacco Taxes	133.1	1,145.3	-8.1
Alcoholic Beverages Tax	71.2	668.8	0.7
Insurance Companies Tax	19.9	809.2	8.9
Utility Taxes ²	0.4	328.6	-8.5
Inheritance Tax	0.0	97.9	77.6
Hotel/Motel Tax	30.3	265.6	-6.3
Other Taxes ³	27.5	1,714.5	74.8
TOTAL TAX COLLECTIONS	\$2,606.7	\$30,881.1	-5.5%
REVENUE BY RECEIPT TYPE			
Tax Collections	\$2,606.7	\$30,881.1	-5.5%
Federal Income	3,969.6	33,853.8	29.2
Interest and Investment Income	165.4	1,143.9	-24.7
Licenses, fees, permits, fines,	456.7	5,667.1	-3.8
Contributions to Employee Benefits	520.5	4,592.7	8.1
Sales of Goods and Services	36.4	342.5	-2.4
Land Income	57.4	616.8	-11.9
Net Lottery Proceeds ⁴	149.2	1,404.6	8.2
Other Revenue Sources	673.0	6,949.3	5.3
TOTAL NET REVENUE	\$8,635.1	\$85,451.9	7.5%

¹ Excludes revenues for funds that are authorized to be held outside the State Treasury and are not processed through USAS. Totals may not add due to rounding.

² Includes the utility, gas utility administration and public utility gross receipts taxes.

³ Includes the cement and sulphur taxes and other occupation and gross receipt taxes not separately identified.

⁴ Gross sales less retailer commissions and the smaller prizes paid by retailers.

NOTES:

Crude oil and natural gas figures are net taxable values. Gasoline gallons include gasoline. Auto sale values are calculated from motor vehicle taxes collected on new and used vehicle sales. All figures are seasonally adjusted, except for sales tax collections; rigs; consumer price; housing permits/sales/prices; and consumer confidence. Figures are based on the most recent available data. Annual figures are for calendar years. [† Double axis graphs: Graphs with two vertical axes show values for Texas on the left and values for the U.S. on the right. This method shows trends more clearly over the last year when data values are substantially different at state and national levels.]

SOURCES:

KEY TEXAS ECONOMIC INDICATORS:

Consumer Price Index, Change in Nonfarm Employment: U.S. Bureau of Labor Statistics

Consumer Confidence Index: The Conference Board

Leading Economic Indicators Index: Texas Comptroller of Public Accounts, The Conference Board

Unemployment Rate: Texas Workforce Commission, U.S. Bureau of Labor Statistics

Nonfarm Employment: Texas Workforce Commission

State Sales Tax Collections, Retail Establishments: Texas Comptroller of Public Accounts

Housing Permits, Existing Single-family Home Sales: The Real Estate Center at Texas A&M University

Industrial Production Index: Federal Reserve Bank of Dallas

State Expenditures/All Funds¹

(Amounts in millions)	Monthly Expenditures	Fiscal Year-to-Date June 2010	
	June 2010	Expenditures	% Change YTD/YTD
BY OBJECT			
Salaries and Wages	\$863.6	\$8,961.9	2.5%
Employee Benefits/Teacher Retirement Contribution	909.6	8,358.0	12.0
Supplies and Materials	85.9	810.5	5.8
Other Expenditures	329.1	2,741.6	1.6
Public Assistance Payments	4,140.0	37,809.0	17.8
Intergovernmental Payments:			
Foundation School Program Grants	1,324.4	13,146.0	-19.2
Other Public Education Grants	2,106.4	6,300.9	40.8
Grants to Higher Education	111.2	975.0	-1.6
Other Grants	260.3	2,625.4	-4.6
Travel	13.5	128.8	-4.8
Professional Services and Fees	147.8	1,823.2	9.3
Payment of Interest/Debt Service	37.7	770.6	6.5
Highway Construction and Maintenance	332.0	2,685.3	-22.6
Capital Outlay	52.6	464.5	21.7
Repairs and Maintenance	57.5	635.8	7.7
Communications and Utilities	37.3	395.3	11.4
Rentals and Leases	21.3	234.4	1.6
Claims and Judgments	8.2	109.7	44.0
Cost of Goods Sold	33.8	348.8	-43.2
Printing and Reproduction	4.0	38.2	-5.0
TOTAL NET EXPENDITURES	\$9,551.9	\$89,362.9	6.2%

BY FUNCTION

General Government			
Executive	\$616.1	\$5,715.3	10.3%
Legislative	10.0	109.8	-5.9
Judicial	15.8	225.3	10.7
Subtotal	641.9	6,050.4	10.0
Health and Human Services	4,049.4	36,839.4	18.2
Public Safety and Corrections	386.8	4,072.3	-5.4
Transportation	545.3	4,816.6	-13.1
Natural Resources/Recreational Services	130.6	1,490.9	-13.7
Education	2,770.4	26,968.0	-2.6
Regulatory Agencies	29.5	292.4	3.5
Employee Benefits	795.9	7,210.7	12.0
Debt Service—Interest	37.7	770.6	6.5
Capital Outlay	52.6	464.5	21.7
Lottery Winnings Paid ²	111.9	386.9	-1.8
TOTAL NET EXPENDITURES	\$9,551.9	\$89,362.9	6.2%

¹ Excludes expenditures for funds that are authorized to be held outside the State Treasury and are not processed through USAS. Totals may not add due to rounding.

² Does not include payments made by retailers. Previously shown as "Other expenditures."

Some revenue and expenditure items have been reclassified, changing year-to-date totals. The ending cash balance is not affected because changes reflected in "total net revenues" and "total net expenditures" offset changes in "net interfund transfers and investments transactions" in the cash condition table.

Revenues and expenditures are reported for the most recent month available and as a running total for the current fiscal year-to-date. In addition, year-to-date figures are compared with the same period in the last fiscal year. These comparisons are reported as percentage changes, which may be positive or negative (shown by a minus sign).

Trust fund transactions are included within revenues and expenditures in the "all funds" presentations. Trust funds are not available to the state for general spending.

Contract Value, Non-Residential Building Construction: McGraw-Hill

Mortgage Foreclosures: RealtyTrac

TEXAS PRODUCTION AND CONSUMPTION INDICATORS:

Crude Oil, Natural Gas, Motor Fuels, Auto Sales, Cigarettes: Texas Comptroller of Public Accounts

Active Oil & Gas Drilling Rigs: Baker-Hughes Incorporated

Median Sale Price, Existing Single-family Home: The Real Estate Center at Texas A&M University

Susan Combs

TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

Fiscal Notes is one of the ways the Comptroller's office strives to assist taxpayers and the people of Texas. The newsletter is a by-product of the Comptroller's constitutional responsibilities to monitor the state's economy and to estimate state government revenues.

Fiscal Notes also provides a periodic summary of the financial statements for the State of Texas.

Articles and analysis appearing in **Fiscal Notes** do not necessarily represent the policy or endorsement of the Texas Comptroller of Public Accounts. Space is devoted to a wide variety of topics of Texas interest and general government concern.

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FISCAL NOTES

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In July, financial news network CNBC tapped Texas as the nation's top state for doing business. The 2010 result marked Texas' second appearance in the top slot in three years, and represented the highest overall score in the study's history.

CNBC ranked the states on a series of factors including business costs, quality of life, cost of living, work force quality and business friendliness.

AMERICA'S TOP STATES FOR BUSINESS, 2010

1. TEXAS

2. Virginia

3. Colorado

4. North Carolina

5. Massachusetts

6. Iowa

7. South Dakota

8. (tie) Minnesota

8. (tie) Utah

10. Georgia

Source: CNBC